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25X1A

SUMMARY

SOUTHEAST ASIA

1. Comment on new Vietnamese cabinet (page 3).
2. Indonesian official exhibits serious interest in American aid (page 4).

SOUTH ASIA

3. Pakistan may take Kashmir issue to Security Council (page 4).

WESTERN EUROPE

4. Belgian foreign minister comments on Mendes-France's attitude toward London conference (page 5).

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SOUTHEAST ASIA

1. Comment on new Vietnamese cabinet:

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Premier Diem's formation on
24 September of an enlarged cabi-
net including representatives of the

Cao Dai and Hoa Hao sects will provide him with some organ-
ized political and military support, which he has hitherto
almost completely lacked. It will also undercut the French
argument that Diem must be removed because his government
represents "nothing." The Cao Dai and Hoa Hao organizations
exercise in their respective spheres north and west of Saigon
temporal and spiritual control over a population numbering
from two to three million of a total of eleven million in south
Vietnam.

Continued local opposition to the Diem
government will be represented chiefly by the Binh Xuyen gang-
ster organization and by General Hinh and certain army officers.
At least until the announcement of the new cabinet, French offi-
cials in Saigon were continuing to encourage opposition to Diem
among these groups. However, since Hinh's ability to control
the army is uncertain, and since the Cao Dai and Hoa Hao have
a combined force of over 20,000 disciplined troops, the likeli-
hood has increased that a face-saving solution will be found to
the Hinh-Diem dispute. The French, whose expeditionary corps
is the controlling factor, have consistently taken a position
against the use of force in the present crisis. An uncertain
factor is the attitude of Bao Dai, whose approval is not yet
assured.

The new government consists of an
incongruous mixture of profiteering war lords and idealistic
nationalist intellectuals, a situation which is bound to lead to
some degree of friction and to pressure on Diem to relax his
rigid concept of honesty among officials. Nevertheless, it is an
essentially nationalist government and, assuming it wins Bao
Dai's approval, the change marks a step toward stable govern-
ment.

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2. Indonesian official exhibits serious interest in American aid:

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[REDACTED]

The director of the Foreign Operations Administration program in Indonesia reports a growing recognition among Indonesian leaders of the critical nature of the country's financial situation. Djuanda, chief of the Planning Bureau of the Ministry of Economic Affairs, has said Indonesia faces the alternative of obtaining foreign aid or imposing a drastic austerity program which would involve a virtual embargo of imports for three years. Djuanda requested figures on American aid to India and stated, "Any conditions that India can agree to, we can agree to more readily."

Comment: Indonesia's economic and financial situation has sharply deteriorated since early 1952. This has been partly the result of reduced prices for its principal exports. More basic, however, have been the failure to restore production to prewar levels and vast increases in the budget.

The present American aid program is limited to approximately \$4,000,000 a year, largely because the Indonesian government refused to give assurances required by American law and because Indonesian officialdom and the press have regarded aid from the United States as an effort to buy their loyalty to the "American bloc."

SOUTH ASIA

3. Pakistan may take Kashmir issue to Security Council:

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[REDACTED]

The Pakistani cabinet secretary informed the American embassy in Karachi on 23 September that Pakistan will soon start preparations to take the Kashmir case to the UN Security Council. Preparations will be delayed, however, if Indian prime minister Nehru insists on continuing his recent correspondence with the Pakistani prime minister on the issue.

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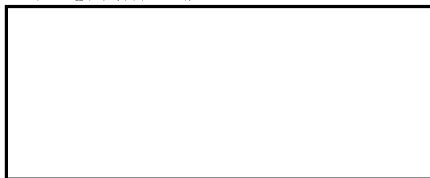
The cabinet secretary stated that the United States had a great responsibility for supporting Pakistan's case in the Security Council because of the risks Pakistan had taken in accepting American military aid and because of Nehru's argument that this aid changed the context of the Kashmir dispute.

Comment: Pakistan has frequently pleaded for more active American support on the Kashmir question. There is little likelihood, however, that any action the United States might take would alter either India's adamant stand against giving up any territory it now holds or Pakistan's basically pro-American orientation.

WESTERN EUROPE

4. Belgian foreign minister comments on Mendes-France's attitude toward London conference:

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The American embassy in Brussels reports that Belgian foreign minister Spaak believes that if the London conference fails, French premier Mendes-

France will adopt neutralism, claiming that France was deserted by its friends and allies as at the Brussels conference. Spaak believes that Mendes-France is too strongly supported by French public opinion to be overthrown by hostile factions in the National Assembly.

Spaak doubts that the problems facing the London conference can be solved, especially the question of control of German armaments, the technical details of which he feels might be insurmountable even if agreement were reached in principle.

Comment: Spaak is still upset by Mendes-France's conduct at Brussels.

The French premier will probably try to avoid being isolated again at the London conference and will make every effort to get British support for his proposals.

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